



SOUTHWARD ENERGY LTD.

1991 ANNUAL REPORT

Notice of Annual Meeting

The Annual General meeting of the shareholders of Southward Energy Ltd. will be held at the company's head office located at Suite 330, 1201 - 5th Street S.W., Calgary, Alberta on February 27, 1992 at 10:00 a.m.

To the Shareholders

Financial

1991 was marked by extraordinary events that created volatile circumstances in the petroleum industry world wide. Not one single Canadian oil and gas company was left untouched by the effects of the Iraq - Kuwait war and the continuing depressed North American natural gas market. Oil prices peaked to record highs as the Middle East crisis accelerated and natural gas prices sunk to six year lows by the summer.

Revenue from company oil and gas sales remained stable during 1991. Although Southward enjoyed an increase in its oil revenue netbacks with the high oil prices in the first six months of our fiscal year, weak natural gas prices and mechanical problems with one of the company's properties resulted in a reduction in company natural gas production and netbacks during the fiscal year. In addition, the deferral until November, 1991 of the drilling of our horizontal well in Willmar, Saskatchewan affected forecasts for 1991 revenues.

The increase during 1991 of general and administration costs of \$64,000 from the previous year was related in large part to non-recurring financing costs. An additional 637,000 common shares were issued for a consideration of \$242,000 for an average issue price of 38 cents per share. During 1992 it is expected that administration costs should not exceed those experienced by the company during 1990.

In the last quarter of the year a staff reduction was effected at a cost savings to the company and was replaced after year end with an in-house consultant. This will result in a total reduction of approximately \$75,000 in annual costs and will not compromise our technical expertise.

During the year the company's liabilities increased by approximately \$300,000 due solely to the financing of gathering systems and production facilities for new gas production. The company will be recovering a significant portion of this investment during January, 1992 from joint venture partners equalizing on these costs to place their share of production on stream through company gathering systems. The recovery of these costs will be used to reduce liabilities.

Management is forecasting a significant reduction to the company's liabilities before our year end on August 31, 1992. This reduction will be made possible by an estimated two fold increase in company oil production and 6 fold increase in gas production commencing January, 1992. These production increases should result in increasing net oil and gas revenues from \$500,000 in 1991 to \$750,000 for 1992.

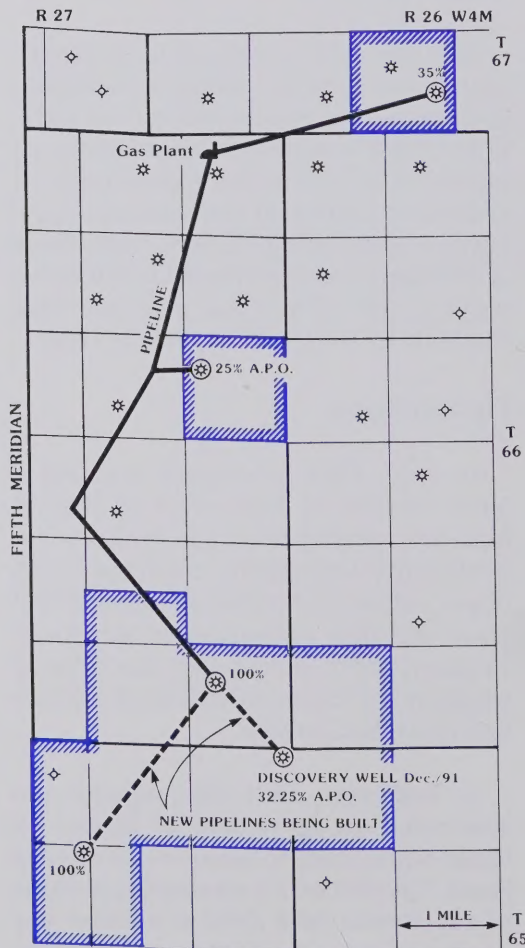
Operations

In July, 1991 Southward acquired a 100% interest in 1280 acres of mineral leases in our Big Bend gas project area. Southward successfully completed a shut in gas well located on these lands and will place this new production on stream in January, 1992 adding net gas sales to company contracts estimated at 1.5 million cubic feet per day.

In December, 1991 the company consummated an agreement to farmin on lands in proximity to the above mentioned lands. Coupled with a successful purchase at two Crown land sales of another key section of land, the company finally assembled all of the lands over which we had seismic control. In December the company participated with a 32.25% interest in a successful gas completion on its newly

acquired lands. Although this gas completion occurred after year end it bears discussion in this report because of its significance for the company. The preliminary data available on our new well suggests that this property will add significant reserves, daily gas sales and corporate value to Southward. Surveying for the pipeline has already been accomplished.

When these two wells are placed on production we anticipate net daily gas sales to approximate 3 million cubic feet.



SOUTHWARD BIG BEND GAS PROJECT

-  COMPANY LANDS (6400 GROSS ACRES)
-  COMPANY OWNED GASWELL
-  GAS PLANT
-  DRY HOLE

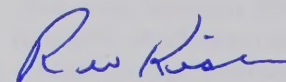
The Future

Management is elated over recent company developments. The accompanying map identifies Southward's land ownership of 8 contiguous sections containing 1920 acres of proven reserves with development potential on the balance of 5120 acres. Further drilling will be decided upon after the results of production and additional seismic information is available.

Management continues to seek out other opportunities to expand our asset base and revenue stream without the dilution of shareholders' equity due to depressed stock prices. Negotiations for the acquisition of proven reserves and resultant revenue is currently underway with a large oil and gas company. Capital requirements for this acquisition will necessitate joint venture funding to complete a gas well and pipeline two wells to the sales outlet.

I would like to take this opportunity to thank Mr. Ron Ambrose for his contribution as a director of Southward for the past 4 years. Although the last few years have been difficult for many junior oil and gas exploration companies, Mr. Ambrose has provided Southward with his experience and valued opinions. His position on the Board of Directors will be taken up by Mr. Rick Ironside, a Professional Engineer. Mr. Ironside will provide technical expertise to the Board and will offer day to day consulting services from the company offices. He is currently in charge of laying two pipelines for Southward in the Big Bend gas project area. We welcome Rick Ironside to the company and look forward to a long and prosperous association with him.

On Behalf of The Board of Directors



R.W. Kiser
President

Auditor's Report

To the Shareholders of Southward Energy Ltd.

I have audited the balance sheet of Southward Energy Ltd. as at August 31, 1991 and the statement of operations and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the company as at August 31, 1991 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Calgary, Alberta
January 3, 1992

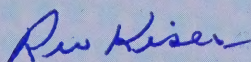
John Geib
Chartered Accountant

Balance Sheet

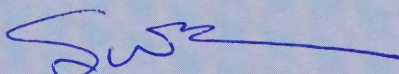
As at August 31, 1991

	<u>1991</u>	<u>1990</u>
Assets		
Accounts receivable	\$ 58,805	\$ 102,434
Fixed, (Note 3)	<u>1,794,231</u>	<u>1,404,026</u>
	<u>\$ 1,853,036</u>	<u>\$ 1,506,460</u>
Liabilities		
Bank indebtedness (Note 4)	\$ 356,720	\$ 206,811
Accounts payable and accrued	316,308	119,310
Convertible debentures (Note 5)	109,800	127,800
Deferred Revenue	-	29,982
	<u>782,828</u>	<u>483,903</u>
Bank Indebtedness (Note 4)	-	79,978
	<u>782,828</u>	<u>563,881</u>
Shareholders' Equity		
Share Capital (Note 6)	1,875,398	1,632,996
Deficit	(805,190)	(690,417)
	<u>1,070,208</u>	<u>942,579</u>
	<u>\$ 1,853,036</u>	<u>\$ 1,506,460</u>

On Behalf of the Board



Richard W. Kiser - Director



Scott W. Kiser - Director

Statement of Operations and Deficit

For the year ended August 31

	<u>1991</u>	<u>1990</u>
Revenue		
Petroleum and natural gas sales	\$ 488,964	\$ 495,486
Gain on sale of property	-	464,220
Operators fees	12,001	33,225
Seismic sales	-	7,080
Interest earned	2,620	875
	<u>503,585</u>	<u>1,000,886</u>
Royalties	64,255	77,226
	<u>439,330</u>	<u>923,660</u>
Direct Expenses		
Operating	82,782	72,649
Depletion and depreciation	119,500	104,189
	<u>202,282</u>	<u>176,838</u>
Revenue From Operations	<u>237,048</u>	<u>746,822</u>
Other Expenses		
Debenture interest	14,271	23,291
General and administrative	296,032	232,506
Interest and bank charges	41,518	41,307
Loss on disposal of subsidiary	-	19,388
	<u>351,821</u>	<u>316,492</u>
Income (loss) for the year	(114,773)	430,330
Deficit, beginning of year	<u>690,417</u>	<u>1,120,747</u>
Deficit, end of year	<u>\$ 805,190</u>	<u>\$ 690,417</u>
Basic earnings (loss) per share	(\$.03)	\$.15
Fully diluted earnings (loss) per share	(\$.03)	\$.11

Statement of Changes in Financial Position

For the year ended August 31

	<u>1991</u>	<u>1990</u>
Operating Activities		
Income (loss) for the year	\$ (114,773)	\$ 430,330
Items not requiring cash:		
Depreciation and depletion	119,500	104,189
Gain on sale of property	-	(464,220)
Loss on disposal of subsidiary	-	19,389
	<u>4,727</u>	<u>89,688</u>
Net change in non-cash working capital balances related to operations	<u>210,646</u>	<u>(44,503)</u>
	215,373	45,185
Financing Activities		
Repayment of debentures	(18,000)	(161,000)
Repayment of promissory note	-	(50,000)
Repayment of loans	(79,978)	(53,484)
Net proceeds of share issuance	<u>242,402</u>	<u>134,967</u>
	144,424	(129,517)
Investing Activities		
Geological costs capitalized	(70,256)	(69,354)
Exploration and lease acquisition	(554,336)	(465,183)
Government grants	56,896	-
Proceeds of sale of petroleum and natural gas properties	60,000	676,458
Acquisition of office assets	<u>(2,010)</u>	<u>(3,021)</u>
	<u>(509,706)</u>	<u>138,900</u>
Changes in cash during the year	(149,909)	54,568
Cash at beginning of year	<u>(206,811)</u>	<u>(261,379)</u>
Cash at end of year*	<u>\$ (356,720)</u>	<u>\$ (206,811)</u>

*Cash at end of year consists of short term bank borrowings plus overdraft.

Notes To Financial Statements

1. Summary Of Significant Accounting Policies

Southward Energy Ltd. is a publicly traded company engaged in the oil and gas business and is incorporated under the Alberta Business Corporations Act. These financial statements are prepared in accordance with generally accepted accounting principles, the more significant of which are:

a) Oil and Gas Operations

The company follows the full cost method of accounting in accordance with the guideline issued by The Canadian Institute of Chartered Accountants whereby all costs associated with the exploration for, and development of, oil and gas reserves, whether productive or nonproductive, are capitalized in cost centres. Such costs include land acquisition, drilling, geological and geophysical expenses related to exploration and development activities.

Gains or losses are not recognized upon the disposition of oil and gas properties unless such a disposition would change the depletion rate by 10% or more. Gains and losses are recognized upon the disposition of other assets.

Carrying values of oil and gas properties and share capital are reduced by grants received and transferred to flow through shareholders. Other grants earned under various government incentive programs are accrued and applied against the related expenditures.

b) Depreciation and Depletion

Furniture and fixtures are depreciated on a basis consistent with that used for capital cost allowance under the Canadian Income Tax Act. Tangible equipment, oil and gas properties and intangibles are depleted on the unit of production method, based on proven reserves of oil and gas as determined by independent engineers and management's estimates. Natural gas reserves are converted to equivalent barrels of oil based upon the relative energy content of each product. In calculating depletion, gross proven reserves (before royalties) are used.

c) Ceiling Limitations

The net carrying value of the company's oil and gas properties is limited to an ultimate recoverable amount which is the aggregate of future net revenues from proved reserves and the costs of unproved properties net of impairment allowances, less future operating cost. Future net revenues are estimated using price escalation of 7% per annum (where warranted) discounted at a 15% present worth.

d) Income Taxes

The company accounts for income taxes by the tax allocation method, whereby income tax expense is determined as the amount that would be payable if statutory tax deductions for drilling, exploration and property acquisition costs and for capital cost allowances were claimed for tax purposes at the same rate as the related depletion and depreciation provisions charged against income.

2. Income Tax

As at August 31, 1991, the company had losses for income tax purposes in the amount of \$171,094 which are available to reduce future years' taxable income. The losses and their respective years of expiry are as follows:

1992	\$ 80,508
1996	\$ 90,586

3. Assets - Fixed at Cost

	<u>1991</u>	<u>1990</u>
Petroleum and Natural Gas Properties	\$ 2,242,967	\$ 1,735,272
Furniture and equipment	54,109	52,099
	<u>2,297,076</u>	<u>1,787,371</u>
Less accumulated depletion and depreciation	502,845	383,345
	<u>\$ 1,794,231</u>	<u>\$ 1,404,026</u>

The company has unused cumulative Canadian oil and gas property expense of \$41,774, cumulative Canadian development expense of \$351,114, cumulative Canadian exploration expense of \$919,956 and earned depletion of \$54,610, available to reduce future taxable income.

4. Bank Indebtedness

Bank indebtedness is payable on demand and is comprised of the following:

Overdraft	\$ 36,742
Treasury Branch loan - revolving	240,000
Treasury Branch term loan #1	45,000
Treasury Branch term loan #2	34,978
	<u>\$ 356,720</u>

A floating charge debenture at prime plus 3% in the principal amount of \$250,000, a continuing guarantee and postponement of claim to the corporation by the Company's president, and general assignment of books debts are pledged as collateral against the indebtedness. In addition, a letter of credit has been pledged as collateral by a third party for the corporation's revolving loan borrowing from time to time. In consideration of the letter of credit the third party received: a royalty on production from one of the company's producing properties, a two year warrant expiring March 1993 to purchase 100,000 common shares of the corporation at \$.40 per share, a fixed and floating charge debenture on the company's assets, a general security charge on chattels and general assignment of accounts due on that property.

The term loans bear interest at prime plus 1% and require monthly principal payments of \$8,950. The revolving loan requires periodic repayments as determined by management and bears interest of prime plus 1%. Interest on all loans is payable monthly.

5. Convertible Debentures

Prime Rate Plus 2% Debenture \$ 70,000

A floating charge subordinated to the bank is pledged as collateral for this debenture. Interest is payable quarterly. The debenture is convertible to common shares at a price of 50 cents per share. The debenture is repayable December 31, 1992 if not converted before then.

10% Debentures 39,800

A floating charge subordinate to the bank is pledged as collateral for the debentures. Interest is payable quarterly. The debentures are convertible to common shares at a price of 50 cents per share. The debentures are payable June 30, 1992 if not converted before then.

\$ 109,800

6. Share Capital

1991

1990

Authorized:

20,000,000 common shares without
nominal or par value

Issued:

3,914,923 shares (1990 - 3,277,780) \$ 1,875,398 \$ 1,632,996

On October 1, 1990 the company issued 280,000 common shares and 280,000 common shares purchase warrants to a holding company belonging to the president of the company and his immediate family in consideration of \$92,400. The warrants expire in 2 years.

On October 1, 1990 stock options were issued in respect of 150,000 common shares exercisable at 50 cents per share. The options expire in two years and were granted to directors and an employee of the company.

On February 28, 1991 the company issued 357,143 common shares from the treasury to CMP 1990 Resource Partnership and Company Limited, (CMP) pursuant to a flow through share exploration agreement ("the agreement") dated June, 1990. In accordance with the agreement the company flowed through Canadian Exploration Expense in the amount of \$214,286 with the issue of 356,143 common shares to CMP. Consideration paid to the company by CMP in respect to the above was \$150,000 cash and an assignment of CMP's exploration incentive grants earned estimated at \$56,896.

7. Related Party Transactions

During the year the company paid remuneration to officers and / or directors or their nominees in the amount of \$122,400 (1990 - \$116,733). On August 6, 1991, a director of the company purchased 100% of the company's interest in a farmout agreement for \$35,000. An option to repurchase this interest was exercised by the company December 10, 1991 for \$37,500.



Corporate Information

Officers

Richard W. Kiser
President
Scott W. Kiser
Vice President & Secretary Treasurer

Directors

Richard W. Kiser
Scott W. Kiser
Gerald C. Saunders
Ronald W. Ambrose

Head Office

#330, 1201 - 5th Street S.W.
Calgary, Alberta
T2R 0Y6

Auditors

John Geib
Chartered Accountant
#331S - 8500 Macleod Trail South
Calgary, Alberta
T2H 2N1

Solicitors

Bennett Jones Verchere
Barristers & Solicitors
4500 Bankers Hall
855 - 2nd Street S.W.
Calgary, Alberta
T2P 4K7

Transfer Agent & Registrar

Central Guaranty Trust Company
Suite 200 - 104 - 4th Avenue S.W.
Calgary, Alberta
T2G 0C4

Bank

Alberta Treasury Branch
420 - 2nd Street S.W.
Calgary, Alberta
T2P 3K4

Stock Exchange

Alberta Stock Exchange
#300, 300 - 5th Avenue S.W.
Calgary, Alberta
T2P 0L3

Trading Symbol

SWN

